

Statement of Need and Reasonableness  
for  
Minnesota Higher Education Coordinating Board Proposed Rules

January 1984

(Rules 5MCAR §2.2101-§2.2106, §2.2204)

## Authority

Authority for the promulgation of these rules is contained in Minnesota Statutes sections 136A.111, subdivision 2 (1982).

The proposed rules as contained in this document reflect changes made to the Higher Education Coordinating Board rules, 1983 edition.

### 5MCAR §2.2102 - Eligible Schools

Discussion: No change from previous rule.

### 5MCAR §2.2103 - Application Date and Student Eligibility

Discussion: No change from previous rule.

### 5MCAR §2.2104 - Ranking Applicants

Discussion: No change from previous rule.

### 5MCAR §2.2105 - Awards

Discussion: The 1983 legislature approved a major redesign of the State Scholarship and Grant Program which is intended to more effectively target available money to students from lower income families. This occurs from an explicit assignment of responsibility in paying the cost of post-secondary education to students, parents, and government.

The design is intended to promote the primary goal of the state's student financial aid system--ensure equal opportunity for all citizens to pursue a post-secondary education in institutions and programs that can best meet their educational needs, regardless of their economic circumstances.

Under the policy, all applicants, as the primary beneficiaries of the education, are expected to contribute at least 50 percent of their cost of attendance from savings, earnings, loans, or other additional assistance from institutional or private sources.

The remaining cost will be met by a contribution from parents determined by a (national need analysis) and by the combination of federal Pell Grant and State Scholarship and Grant awards.

The legislation repealed current policy which limited both the maximum state grant and the percentage of need that can be filled with governmental grant assistance.

The old policy authorized a maximum award of \$1400, but awards were held to \$1050 in Fiscal Year 1982 and 1983 due to state funding constraints.

Also, the old policy stated that the state award in combination with the federal Pell Grant could not exceed 75 percent of an applicant's estimated financial need, leaving at least 25 percent to the student.

The new policy is intended to correct inequities that resulted from these limits. That is, students from very low income families were left with a wider

gap between their educational costs and resources (after the expected parental contribution, Pell Grant and state grant were factored in) than were students from middle-income families attending the same institutions. The poorer student in some cases had to contribute more money to his or her education from savings, work, or borrowing than a more affluent applicant.

Under the new policy, all applicants take responsibility for at least 50 percent of their cost of attendance which includes tuition and fees, room and board and miscellaneous expenses.

For students attending public institutions the tuition and fees allowance is to be the actual amount charged by the institution.

For students at private four-year institutions the allowance for tuition and fees is not to exceed \$3598 in 1983-84 and \$4063 in 1984-85. For private two-year collegiate and vocational institutions the allowance is not to exceed \$3573 in 1983-84 and \$3752 in 1984-85. These allowances are based on the instructional costs per full-year equivalent student in comparable public institutions.

The effect of these recognized tuition and fees for students in private institutions is to place an effective cap on the size of awards and require them to in most cases contribute more than 50 percent of the cost of attendance.

The tuition and fee limits on four-year private institutions will be lower than the comparable public cost of instruction for 1983-84 and 1984-85 but will approach that criterion in steps with the phase-in completed by 1985-86. The governor proposed a four-year phase in; it was shortened to two years by the legislature.

Although these allowances effectively limit award sizes, the new policy results in substantially larger awards to the lowest income students than were possible under the old approach.

At authorized funding levels, for example, a student from a typical family with 1982 family income under \$30,000 will receive a larger state award next year than he or she now receives. The greatest increase in award dollars will go to low and middle income students.

#### 1. Why is the Change Needed?

The proposed design has several advantages over the old approach. Most significantly, it better enables the state to achieve its goal of equal educational opportunity. The design requires that policymakers clearly define the relative shares of responsibility for paying for a post-secondary education among students, parents, institutions and government.

The design provides a framework for program decisions to distribute available funds equitably, no matter what the annual funding levels. If funding is insufficient to meet the full amount required to ensure the elimination of financial barriers, then the design is flexible enough to ration limited funds in a way that either protects the most needy students and their families from any decrease in aid or that proportionately distributes the added burden to all students. In no case would the lowest income students shoulder the major brunt of budget shortfalls, as occurred in the old approach. Conversely, during

periods of strong economic growth in the state, this design reduces the demand for state resources. As family financial conditions improve, thus increasing the capacity to finance dependents' education, the state role would decline automatically.

Further, the design provides a framework for coordination of all student assistance programs so that maximum efficiency can be achieved. The design provides a simple way of defining the state's role in providing financial assistance. The design increases the accountability of the system of financial assistance to public officials by more clearly identifying the ramifications of various funding levels and related policy decisions.

## 2. Why is the Change Reasonable?

In 1981 the Coordinating Board conducted an extensive review of student financial aid in the state and proposed an alternative design in 1982. The alternative design was based on widespread consultation with interested parties over several months, and in December of 1982, the Board voted to transmit an amended version of the original proposal to the governor and the 1983 legislature.

Hearings were held during the 1982 legislature, but little time was available for a full discussion of the proposal and no action was taken. In subsequent months, the Board analyzed the effects of implementing the alternative design and in April the staff issued a technical paper outlining the effects if the design had been in place in 1980-81.<sup>1</sup> Informational briefings were conducted around the state, and the staff papers were distributed widely and discussed with a variety of groups and individuals. In July 1982 the Board, following several months of discussion, adopted its recommendation on the proportion of costs to be borne by the student within the Design for Shared Responsibility. Also in July the Coordinating Board adopted a resolution which recognized the efforts of the University of Minnesota Board of Regents in studying the proposal and suggesting possible changes. The Coordinating Board directed its staff to work with staff at the University and staff of other post-secondary systems to develop suggestions to further improve the proposal. Discussions with the University of Minnesota staff focused on the following concerns:

- o Methods of further controlling award size.
- o Appropriate use of various rationing devices in the event of inadequate funding.

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<sup>1</sup> Minnesota Higher Education Coordinating Board, Effects of Implementing an Alternative Design for Shared Responsibility in the Minnesota Student Financial Aid System (April 1982). The technical paper considers the effects of a student self-help expectation of 40, 50 or 60 percent of the cost of attendance. The impact on students, institutions, and state spending of each of these options is compared with the actual outcomes in the Scholarship and Grant Program in 1980-81 under the current approach. In addition to describing the various effects, the technical paper establishes some guidelines for determining a reasonable proportion of attendance cost to be assigned as the student's responsibility--the central issue in the alternative design--and outlines a method of rationing limited funds.

- o Eligibility criteria for, and formula treatment of, independent students.
- o Impact of further reduction in Guaranteed Student Loan eligibility.
- o Protection of lower middle-income students affected by reductions in Pell Grant awards.

The Board in September adopted in principle three amendments to its design which are intended to address the above concerns.

The Board formally asked each of the public and private post-secondary systems to comment on concerns about the alternative design as amended. At its December 2 meeting the Coordinating Board discussed the responses to the proposals made by the post-secondary systems and voted to formally transmit to the governor and legislature the proposal as amended. In addition, the Board voted to reduce its 1983-85 biennial budget request for the State Scholarship and Grant program by \$11.2 million, a decrease resulting in part from the amendments.

### 3. Illustrations

Table 1 can be used to illustrate the proposed design. Assume that the student comes from a poor family whose parents have limited resources, and according to the (national need analysis), are not expected to contribute to his or her cost of attendance. If the student were attending Gustavus, for example, he or she would be expected to contribute half of the recognized cost of attendance, or \$3174. This would come from savings, earnings, loans, or other resources. Since the students' parents cannot be expected to make a contribution to the remaining 50 percent of the cost due to their meager family financial resources, the student would be eligible for grants totaling \$3174 from the federal Pell Grant Program and the State Scholarship and Grant Program. If the student came from a more affluent family and his parents were expected to contribute \$1000, for example, he would be eligible for grants totaling \$2174.

TABLE 1:

Institution	Budget Recognized			Total Budget Recognized	Student Contribution 50 Percent Student Share
	Tuition and Fees Recognized	Actual Tuition and Fees	Living and Misc.		
AVTIs	\$ 797	same	\$2,750	\$3,547	\$1,774
Community Colleges	1,080	same	2,750	3,830	1,915
State Universities	1,318	same	2,750	4,068	2,034
UM-Twin Cities	1,680	same	2,750	4,430	2,215
Concordia-St. Paul	3,598	*\$3,855	2,750	6,348	3,174
St. Thomas	3,598	* 4,730	2,750	6,348	3,174
Gustavus	3,598	* 5,442	2,750	6,348	3,174
Macalester	3,598	* 6,975	2,750	6,348	3,174
Carleton	3,598	* 7,810	2,750	6,348	3,174
Golden Valley					
Lutheran College	3,573	** 4,960	2,750	6,323	3,162

\*The private four-year college tuition cap is \$3,598.  
 \*\*The private two-year college and private vocational school cap for 1983-84 is \$3,573.

In fact, however, students attending most private institutions will have to contribute more than 50 percent because of the caps imposed on the tuition and fees recognized in calculating the budget. The hypothetical student at Gustavus in reality faces a total budget of \$8192 because the actual tuition and fees are \$5442, not the artificial capped amount of \$3598. Without a cap this poor student would be eligible for grants totaling \$4095, or half the actual cost of \$8192.

Figure 1 illustrates the various levels of responsibility as applied at a public and private institution.

Figure 2 shows how the proposal works for students from varying income levels at public institutions with no limit on state awards. The key point is that the expected contribution would be the same for all students with the same cost of attendance. If the student chose to attend a school with a higher price, his or her expected contribution increases proportionally because of that decision. The parental contribution and amount of grant assistance varies depending on the family's economic situation.

Figure 3 illustrates how the process affects students from families with varying income levels in public institutions. It shows that the direct subsidies to the institutions are the same. It doesn't make any difference whether the student comes from a family where the income is \$5,000 or \$50,000 a year. Second, the current explicit expectation of the student is the same for all three students. It was \$700. There are, however, differences in the parental expectation--the higher the income, the larger is the parents' expectation. Next is the federal grant, which is largest at no parental contribution, and the state grant which operated similarly to the federal grant up to some specific limits.

Finally, the student re-enters and covers the rest of the gap through work, borrowing, or other measures. Note that the remaining gap is largest for the student from the lowest income family. As a result, some students are expected to contribute more than may be reasonable while others are not expected to contribute as much as they may be able.

#### 5MCAR §2.2106 - Method of Payment

Discussion: No change from previous rules.

#### 5MCAR §2.2204 -Eligible Students (Part-time Student Grants)

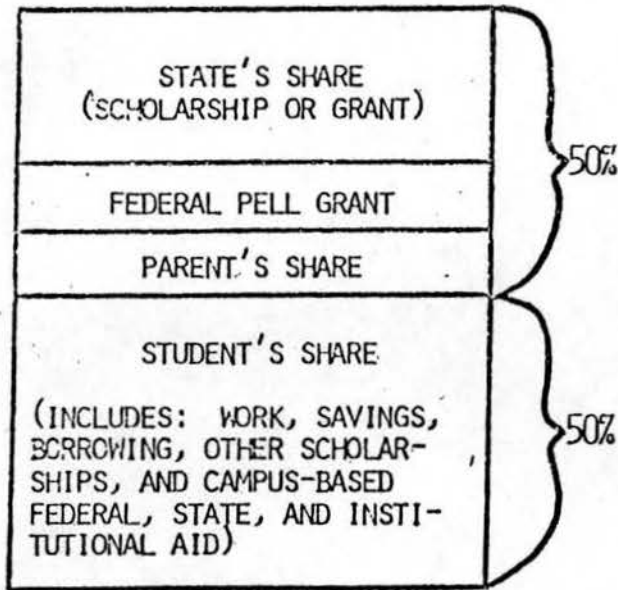
Discussion: (5MCAR §2.2204A) In the previous rule, the student had to meet the criteria as defined in 5MCAR §2.0100D, except that the student need not be a full-time student. A change was made to this rule by exempting the student from 5MCAR §2.0100 D.1 and D.4 which allows graduate students to continue being eligible for part-time student grants.

It was determined that to include graduate students was reasonable because they are not excluded in statutes and graduate students are not eligible for a scholarship or grant.

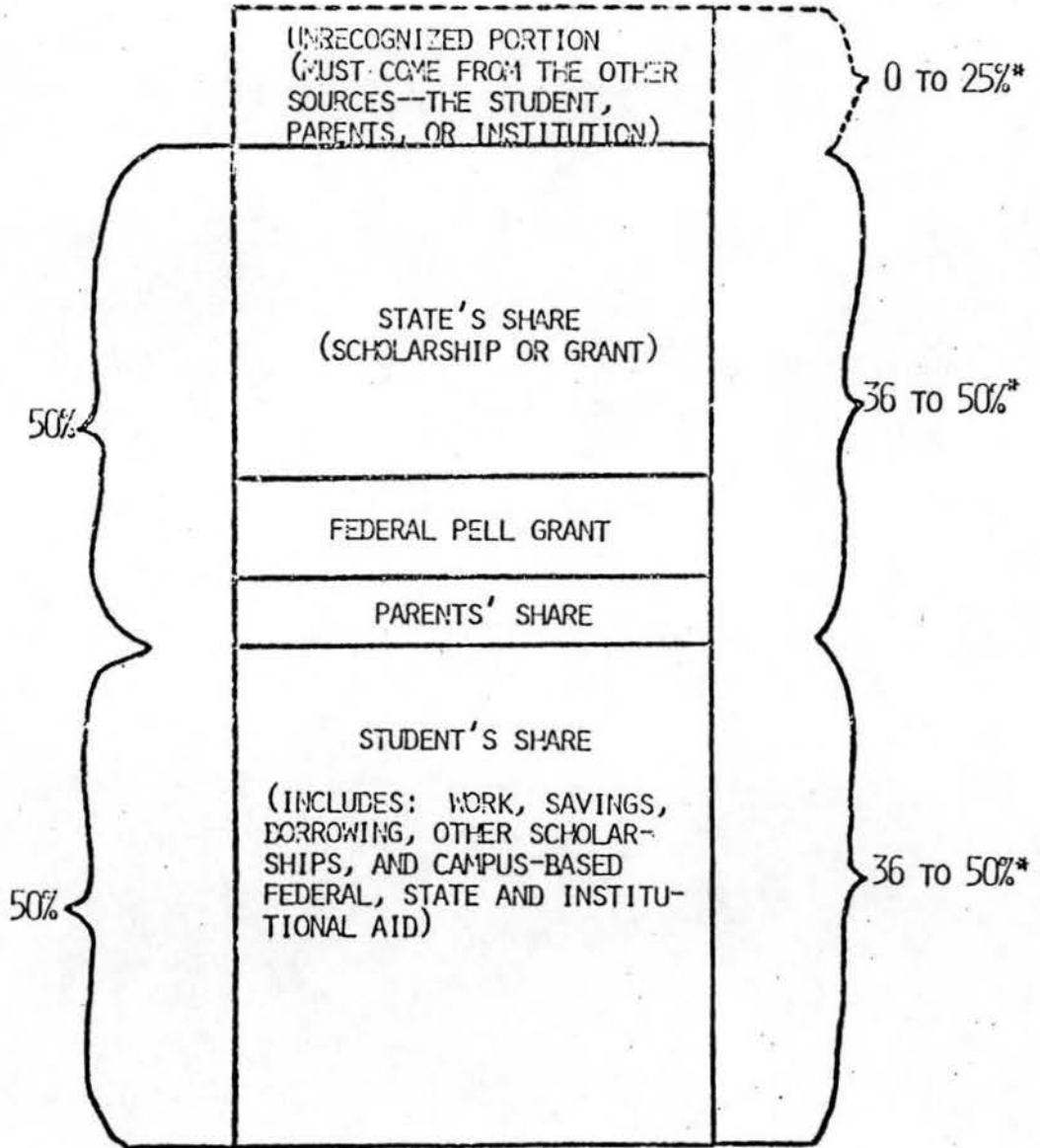
The remaining sections of 5MCAR §2.2204 remain unchanged from the previous rule.

FIGURE 1: THE PROPOSED DESIGN:

DISTRIBUTION OF RESPONSIBILITY FOR MEETING STUDENT BUDGET AT PUBLIC AND PRIVATE INSTITUTIONS



PUBLIC



PRIVATE

\* ACTUAL PROPORTION WITHIN THIS RANGE DEPENDS UPON THE ACTUAL BUDGET AT THE PRIVATE INSTITUTION.

FIGURE 2: RELATIVE LEVELS OF RESPONSIBILITY FOR MEETING EDUCATIONAL COSTS AT PUBLIC INSTITUTIONS UNDER PROPOSED DESIGN FOR SHARED RESPONSIBILITY

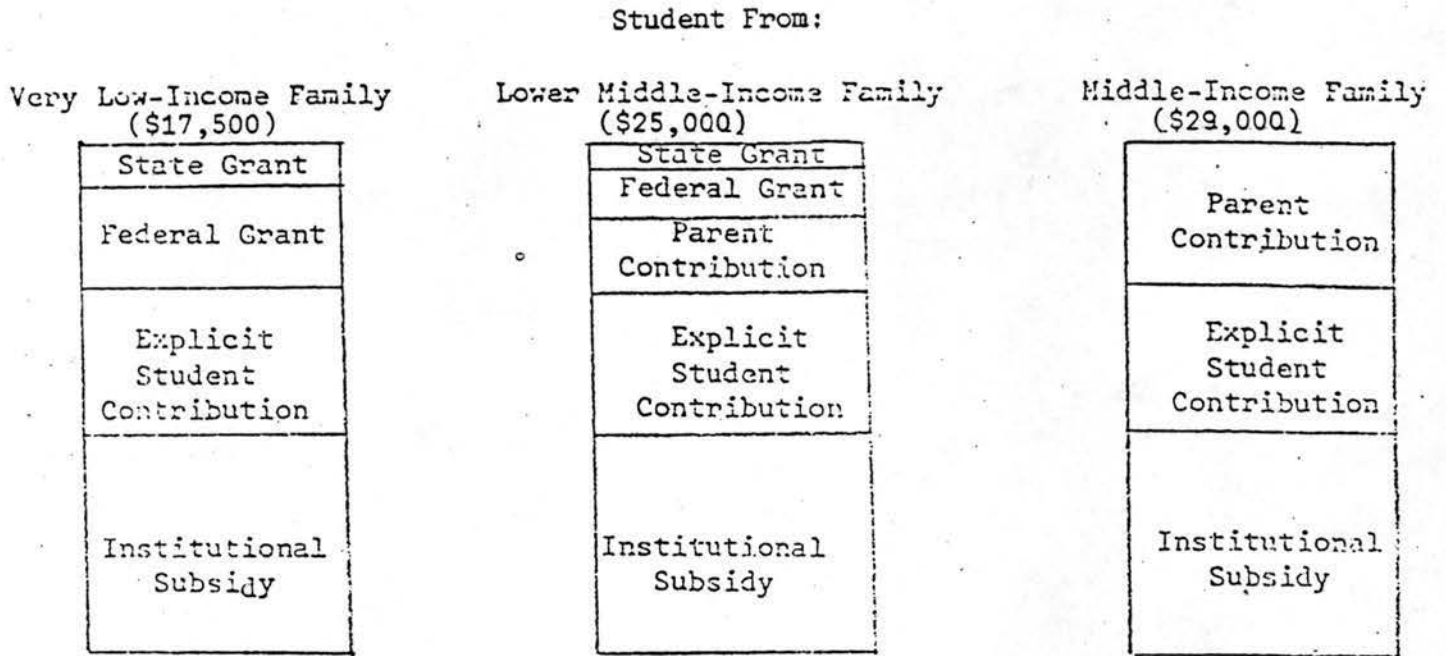
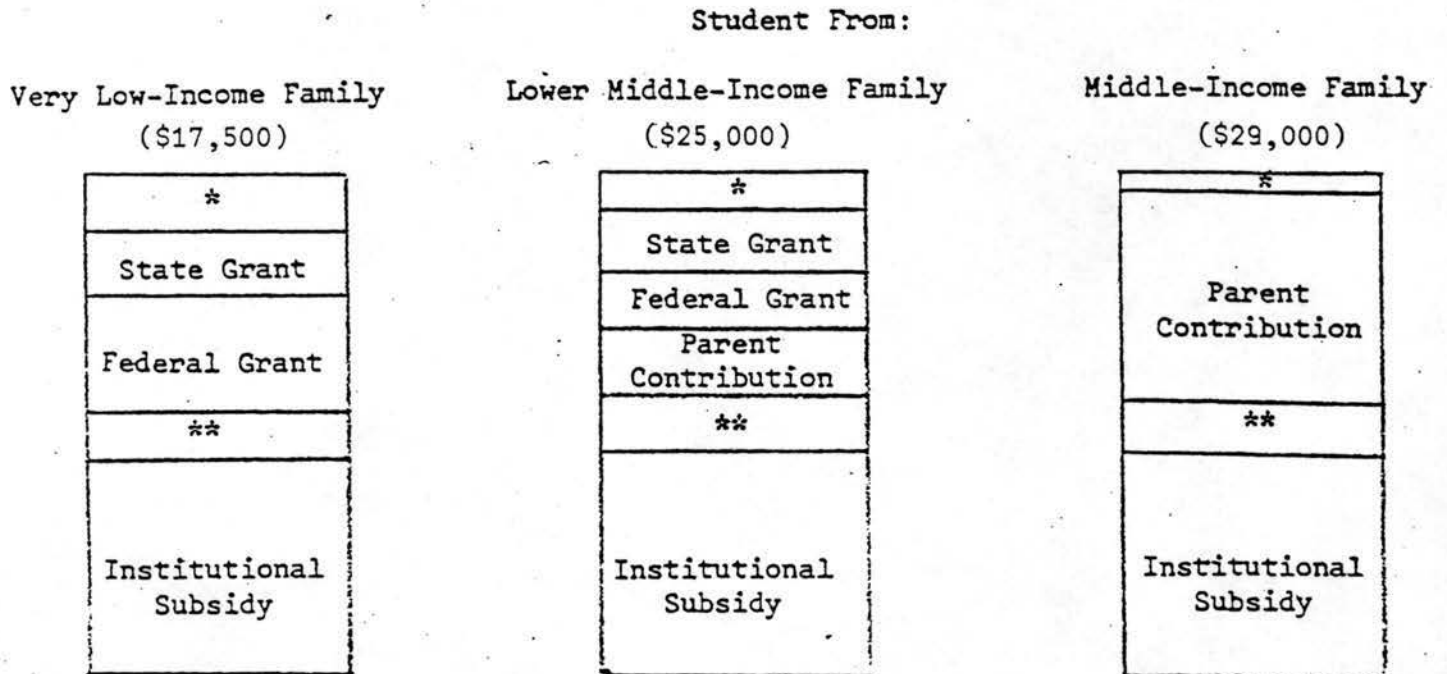


FIGURE 3: RELATIVE LEVELS OF RESPONSIBILITY FOR MEETING EDUCATIONAL COSTS AT PUBLIC INSTITUTIONS UNDER THE OLD FINANCIAL AID APPROACH



\*Implicit student contribution  
 \*\*Explicit student contribution of \$700